

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Commissioners of the Authority
Northwest Bergen County Utilities Authority
Waldwick, New Jersey

We have audited the accompanying basic financial statements of the Northwest Bergen County Utilities Authority, a component unit of the County of Bergen, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

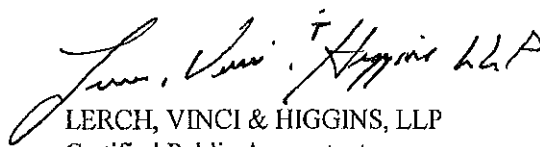
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Northwest Bergen County Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Northwest Bergen County Utilities Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

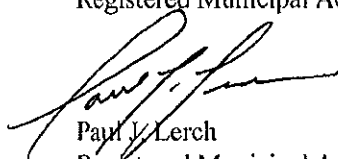
In accordance with Government Auditing Standards, we have also issued our report dated April 16, 2012 on our consideration of the Northwest Bergen County Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Northwest Bergen County Utilities Authority as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Northwest Bergen County Utilities Authority. The accompanying schedule of expenditures of state financial assistance are presented for purposes of additional analysis as required by U.S. Office and Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and New Jersey OMB Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid" and are also not a required part of the financial statements of the Northwest Bergen County Utilities Authority. The supplementary schedules and schedules of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants



Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 16, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011

This section of the Northwest Bergen County Utilities Authority's ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements and accompanying notes.

The Authority entered into an agreement on March 12, 1965 with the Boroughs of Allendale, Ho-Ho-Kus, Midland Park, Ramsey, Waldwick and the Township of Wyckoff to provide a wastewater collection and treatment service to all the member municipalities. Since that agreement has been signed, the Authority has added five more municipalities: Township of Mahwah, the Borough of Upper Saddle River, Village of Ridgewood, the Borough of Saddle River and the Borough of Franklin Lakes. The Authority provides wastewater collection and treatment services to ten municipalities not including Franklin Lakes because they have not completed the wastewater system hookup.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 are as follows:

- Net assets were \$38,269,446, an increase from December 31, 2010 of \$3,413,725.
- Total budgetary revenues from all sources were \$15,050,658 an excess of \$235,418 when compared to the modified budget.
- Cash from reserves in the amount of \$160,000 was originally budgeted to cover the revenue shortfall; however actual revenues were in excess of expenses resulting in a budgetary income of \$752,246.
- Overall GAAP operating revenues were \$14,809,171, an increase from 2010 of \$312,579.
- Overall GAAP operating expenses were \$10,869,592, a decrease from 2010 of \$162,321.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of the: Management's Discussion and Analysis (this section), the basic financial statements and supplementary schedules. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Proprietary Fund – Services for which the Authority charges customers a user fee are generally reported in proprietary funds. These statements offer short-term and long-term financial information about the activities and operations of the Authority. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner. The financial statements also include Notes that explain certain information in the financial statements and provide more detailed data.

The Northwest Bergen County Utilities Authority maintains one proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities. The Authority uses the one Enterprise Fund to account for its Wastewater System Operation.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011
(Continued)**

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets – The following table summarizes the Statement of Net Assets as of December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 18,201,045	\$ 20,714,539	\$ 19,197,529
Capital Assets (Net of Accumulated Depreciation)	<u>44,243,426</u>	<u>42,069,556</u>	<u>42,396,693</u>
Total Assets	<u>62,444,471</u>	<u>62,784,095</u>	<u>61,594,222</u>
Other Liabilities	6,434,915	5,430,559	6,246,149
Non-Current Liabilities	<u>17,740,110</u>	<u>22,497,815</u>	<u>23,382,753</u>
Total Liabilities	<u>24,175,025</u>	<u>27,928,374</u>	<u>29,628,902</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	25,008,389	22,054,432	19,775,994
Restricted	9,773,707	9,425,822	9,142,630
Unrestricted	<u>3,487,350</u>	<u>3,375,467</u>	<u>3,046,696</u>
Total Net Assets	<u>\$ 38,269,446</u>	<u>\$ 34,855,721</u>	<u>\$ 31,965,320</u>

The Authority's Net Assets increased \$3,413,725 and \$2,890,401 in 2011 and 2010, respectively, which is attributable to the Authority's sound fiscal management. Key elements of this increase are summarized in the following table.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2011

(Continued)

OPERATING ACTIVITIES

The following table summarizes the changes in Net Assets between fiscal years 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Member Service Fees	\$ 13,916,922	\$ 13,738,687	\$ 13,212,508
Outside Sludge	433,579	211,287	169,666
Industrial Pretreatment Program	75,479	65,181	89,529
Miscellaneous	<u>383,191</u>	<u>481,437</u>	<u>863,589</u>
 Total Operating Revenues	 <u>14,809,171</u>	 <u>14,496,592</u>	 <u>14,335,292</u>
 OPERATING EXPENSES			
Administration	1,564,260	1,713,756	1,739,331
Cost of Providing Services	7,500,308	7,543,654	7,215,863
Depreciation	<u>1,805,024</u>	<u>1,774,503</u>	<u>2,114,295</u>
 Total Operating Expenses	 <u>10,869,592</u>	 <u>11,031,913</u>	 <u>11,069,489</u>
 OPERATING INCOME	 <u>3,939,579</u>	 <u>3,464,679</u>	 <u>3,265,803</u>
 NON-OPERATING REVENUES (EXPENSES)			
Interest Income	241,487	364,698	400,590
Interest Expenses	(696,846)	(865,734)	(885,392)
Amortization of Costs of Issuance	<u>(70,495)</u>	<u>(73,242)</u>	<u>(77,522)</u>
 Total Non-Operating Revenues/(Expenses)	 <u>(525,854)</u>	 <u>(574,278)</u>	 <u>(562,324)</u>
 CHANGE IN NET ASSETS	 <u>\$ 3,413,725</u>	 <u>\$ 2,890,401</u>	 <u>\$ 2,703,479</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011 (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the Authority's investment in capital assets, net of depreciation, between fiscal years 2011, 2010 and 2009. The construction in progress represents the incinerator upgrades, UV replacement and the Franklin Lakes sewer expansion project.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 1,350,526	\$ 1,350,526	\$ 1,350,526
Treatment Plant and Collection System	77,517,445	76,503,564	75,153,224
Property and Equipment	14,256,344	14,256,344	14,256,344
Construction in Progress	<u>5,178,078</u>	<u>2,213,065</u>	<u>2,116,039</u>
	98,302,393	94,323,499	92,876,133
Less Accumulated Depreciation	<u>(54,058,967)</u>	<u>(52,253,943)</u>	<u>(50,479,440)</u>
Capital Assets, Net	<u>\$ 44,243,426</u>	<u>\$ 42,069,556</u>	<u>\$ 42,396,693</u>

During the year ending 2011, The Authority completed the Upper Saddle River sewer expansion project and the scum tilting troughs.

The Authority's on-going capital plan is extensive and reviewed each year by the Authority's outside engineers. Several of the larger future capital improvements are listed below:

- Continuous improvements to expand odor control
- Pump station upgrades
- Completion of the UV replacement
- Completion of the incinerator upgrades
- Incinerator emission control upgrade
- Plant infrastructure repairs
- Upgrading Wasting System
- Improvements to the maintenance building

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011
(Continued)**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

- Grounds and roadway improvements
- Replacement of truck, backhoe and forklift
- Final clarifier improvements

The Authority's Consulting Engineer has estimated that \$11,360,000 will be required to fund the Capital Projects identified by the Authority in the period 2012-2016. The 2012 Capital Budget will be funded primarily by debt authorization and it is anticipated that the Authority will continue this approach through 2016. In addition, the 2012 operating budget has a capital outlay appropriation to fund certain pump station upgrades and plant infrastructure repairs. As a consequence, there will be no funds added to the Renewal and Replacement Reserve in 2012. As of December 31, 2011, the Authority has restricted in the Renewal and Replacement Reserve Account \$250,000.

Additional information on the Authority's capital assets can be found in Note 6 to the Basic Financial Statements.

Debt Administration

The following table summarizes the Authority's long-term debt as of December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue Bonds	\$ 14,557,745	\$ 17,687,519	\$ 20,637,294
Plus: Unamortized Original Issue Premium	321,288	422,632	517,405
Less: Unamortized Loss on Refunding	<u>(166,493)</u>	<u>(311,333)</u>	<u>(442,160)</u>
Total Wastewater Revenue Bonds-Net	<u>14,712,540</u>	<u>17,798,818</u>	<u>20,712,539</u>
New Jersey Environmental Infrastructure Loan	7,073,079	8,400,891	6,436,231
Plus: Unamortized Original Issue Premium	158,055	166,374	
Unamortized Gain on Refunding	<u>209,233</u>	<u>269,648</u>	<u>325,343</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>7,440,367</u>	<u>8,836,913</u>	<u>6,761,574</u>
Total Long-Term Debt - Net	22,152,907	26,635,731	27,474,113
Plus: Compensated Absences	136,755	156,634	133,396
Claims and Judgements	<u>248,699</u>	<u>178,699</u>	<u>485,936</u>
Long-Term Liabilities	<u>\$ 22,538,361</u>	<u>\$ 26,971,064</u>	<u>\$ 28,093,445</u>

Additional information on the Authority's capital debt can be found in Note 7 of the Basic Financial Statements.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2011

(Continued)

OTHER FINANCIAL INFORMATION

2012 BUDGET AND NEXT YEAR RATES

Assumptions

- Salaries and Wages will increase due to contractual salary increase and step increase.
- Employee Benefits will increase based upon wages and increased health benefits.
- Public Employee Retirement System contribution is increased due to State mandates.

The Northwest Bergen County Utilities Authority's adopted 2012 Budget totals \$15,671,114, representing \$695,874 or 4.65% increase from the original 2011 Budget of \$14,975,240. The majority of the increase is due to the increase in Capital Outlay of \$500,000 to fund certain capital projects as discussed in the previous page.

The 2012 Operating Budget of \$9,749,702 has decreased by \$52,352, or .53% from 2011.

Revenue anticipated from Service Charges will vary for each community – depending on the factors applied for adjusted meter flow, water use and equivalent dwelling units. The total amount required from all user communities to balance this budget amounts to \$13,728,526, which represents a 2% decrease from 2011. Funds are anticipated this year for Outside Septage and Sludge in the amount of \$360,000. Interest income is estimated at \$200,000, a reduction from 2011 due to declining balances and interest rates in 2011. Industrial Pretreatment Program Permit income is estimated to be \$65,000 and Collection System Operations income is estimated to be \$48,000. This year we anticipate Miscellaneous Income totaling approximately \$118,000 which includes the sale of Solar Renewable Energy Certificates (SREC's). In addition the Authority is utilizing funds from unrestricted net assets in the amount of \$180,000 and \$901,588 from debt service reserves in order to limit the increase in service charges to member municipalities.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the member municipalities and their citizens, investors and creditors, with general overview of the Authority's finances to demonstrate the Authority's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the Authority at 30 Wyckoff Avenue, P.O. Box 255, Waldwick, NJ 07463.

BASIC FINANCIAL STATEMENTS

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

	December 31, <u>2011</u>	December 31, <u>2010</u>
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 2,717,596	\$ 2,391,371
Accrued Interest Receivable		86
Inventory	609,905	549,247
Prepaid Items	<u>115,227</u>	<u>107,974</u>
Total Unrestricted Current Assets	<u>3,442,728</u>	<u>3,048,678</u>
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	3,550,483	3,438,465
Accrued Interest Receivable	353	150
Project Accounts		
Cash and Cash Equivalents	1,907,470	2,003,141
Accrued Interest Receivable	36	88
Renewal and Replacement Account		
Cash and Cash Equivalents	250,000	250,000
Accrued Interest Receivable	5	5
Bond/Loan Service Account		
Cash and Cash Equivalents	2,427,029	2,543,057
Accrued Interest Receivable	6,498	5,914
Bond/Loan Reserve Account		
Cash and Cash Equivalents	2,050,532	779,735
Investments	2,040,473	3,311,270
Accrued Interest Receivable	5,973	58,789
Loan Receivable-NJEIT	<u>777,691</u>	<u>3,461,609</u>
Total Restricted Current Assets	<u>13,016,543</u>	<u>15,852,223</u>
Total Current Assets	<u>16,459,271</u>	<u>18,900,901</u>
Restricted Non-Current Assets		
Loan Reserve Account		
Investments	1,286,380	1,286,380
Accrued Interest Receivable	<u>28,812</u>	<u>28,812</u>
Total Restricted Non-Current Assets	<u>1,315,192</u>	<u>1,315,192</u>
Deferred Charges		
Debt Issuance Costs (net of amortization)	<u>426,582</u>	<u>498,446</u>
Total Deferred Charges	<u>426,582</u>	<u>498,446</u>
Capital Assets		
Land	1,350,526	1,350,526
Treatment Plant and Collection System	77,517,445	76,503,564
Property and Equipment	14,256,344	14,256,344
Construction in Progress	5,178,078	2,213,065
Less Accumulated Depreciation	<u>(54,058,967)</u>	<u>(52,253,943)</u>
Total Capital Assets (net of accumulated depreciation)	<u>44,243,426</u>	<u>42,069,556</u>
Total Non-Current Assets	<u>45,985,200</u>	<u>43,883,194</u>
Total Assets	<u>\$ 62,444,471</u>	<u>\$ 62,784,095</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010**

	December 31, <u>2011</u>	December 31, <u>2010</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 399,886	\$ 335,869
Accrued Salary and Related Benefits	99,103	112,266
Accrued Compensated Absences	13,676	15,663
Escrow Deposits Payable	6,000	6,000
Other Liabilities	628	37
Unearned Revenues	<u>64,349</u>	<u>28,490</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>583,642</u>	<u>498,325</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	730,807	105,357
Revenue Bonds Payable	3,284,774	3,129,774
Loans Payable	1,499,801	1,327,812
Accrued Interest on Bonds and Loans	<u>335,891</u>	<u>369,291</u>
Total Current Liabilities Payable from Restricted Assets	<u>5,851,273</u>	<u>4,932,234</u>
Non-Current Liabilities		
Revenue Bonds Payable (net of unamortized discounts and deferred amount on refunding)	11,427,766	14,669,044
Loans Payable (net of unamortized gain on loan refinancing)	5,940,566	7,509,101
Accrued Compensated Absences	123,079	140,971
Claims and Judgments Payable	<u>248,699</u>	<u>178,699</u>
Total Non-Current Liabilities	<u>17,740,110</u>	<u>22,497,815</u>
Total Liabilities	<u>\$ 24,175,025</u>	<u>\$ 27,928,374</u>
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 25,008,389	\$ 22,054,432
Restricted For:		
Operating Reserve	2,437,426	2,450,514
Debt Service	2,422,823	2,271,066
Debt Reserve	4,663,458	4,454,242
Renewal and Replacement	250,000	250,000
Unrestricted	<u>3,487,350</u>	<u>3,375,467</u>
Total Net Assets	<u>\$ 38,269,446</u>	<u>\$ 34,855,721</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31, <u>2011</u>	December 31, <u>2010</u>
OPERATING REVENUES		
Member Service Fees	\$ 13,916,922	\$ 13,738,687
Sewer Connection Fees	119,346	56,084
Discharge Fees	1,500	1,670
Industrial Pretreatment Program	75,479	65,181
Outside Sludge	433,579	211,287
Collection System	71,859	85,803
Solar Renewable Energy Certificates	147,595	293,975
Miscellaneous	<u>42,891</u>	<u>43,905</u>
Total Operating Revenues	<u>14,809,171</u>	<u>14,496,592</u>
OPERATING EXPENSES		
Administrative and Executive		
Salaries & Wages	575,979	505,947
Fringe Benefits	291,107	230,443
Other Expenses	697,174	977,366
Cost of Services		
Salaries & Wages	3,167,559	3,234,003
Fringe Benefits	1,600,425	1,472,756
Other Expenses	2,732,324	2,836,895
Depreciation Expense	<u>1,805,024</u>	<u>1,774,503</u>
Total Operating Expenses	<u>10,869,592</u>	<u>11,031,913</u>
OPERATING INCOME	<u>3,939,579</u>	<u>3,464,679</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	241,487	364,698
Interest Expenses	(696,846)	(865,734)
Amortization of Costs of Issuance	<u>(70,495)</u>	<u>(73,242)</u>
Total Non-Operating Income (Expenses)	<u>(525,854)</u>	<u>(574,278)</u>
CHANGE IN NET ASSETS	3,413,725	2,890,401
Total Net Assets, January 1,	<u>34,855,721</u>	<u>31,965,320</u>
Total Net Assets, December 31,	<u>\$ 38,269,446</u>	<u>\$ 34,855,721</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31, <u>2011</u>	December 31, <u>2010</u>
Cash Flows from Operating Activities		
Cash Received from Members	\$ 13,916,922	\$ 13,738,687
Cash Received from Other Operating Fees	885,217	705,930
Cash Paid to Suppliers	(5,315,312)	(5,736,110)
Cash Paid to Employees	(3,776,580)	(3,754,030)
Cash Received from Miscellaneous Fees	<u>42,891</u>	<u>694,442</u>
Net Cash Provided (Used) by Operating Activities	<u>5,753,138</u>	<u>5,648,919</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from NJEIT Loan Receivable	2,685,287	
Principal Payments - Bonds	(3,129,774)	(2,949,775)
Principal Payments - Loans	(1,327,812)	(1,370,340)
Payment of Debt Issuance Costs	(81,122)	
Interest Paid - Bonds and Loans	(855,244)	(962,676)
Payment of Arbitrage Rebate	-	(377,237)
Acquisition of Fixed Assets	<u>(3,181,583)</u>	<u>(1,854,191)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,890,248)</u>	<u>(7,514,219)</u>
Cash Flows from Investing Activities		
Proceeds from Investments Matured	1,270,797	2,158,948
Interest Received	<u>363,654</u>	<u>491,332</u>
Net Cash Provided for Investing Activities	<u>1,634,451</u>	<u>2,650,280</u>
Net Increase in Cash and Cash Equivalents	1,497,341	784,980
Cash and Cash Equivalents, January 1,	<u>11,405,769</u>	<u>10,620,789</u>
Cash and Cash Equivalents, December 31,	<u>\$ 12,903,110</u>	<u>\$ 11,405,769</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Cash Equivalents	\$ 2,717,596	\$ 2,391,371
Restricted - Cash and Cash Equivalents	<u>10,185,514</u>	<u>9,014,398</u>
	<u>\$ 12,903,110</u>	<u>\$ 11,405,769</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	December 31, <u>2011</u>	December 31, <u>2010</u>
Operating Income	\$ 3,939,579	\$ 3,464,679
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,805,024	1,774,503
(Increase)/Decrease in Other Receivables	-	650,537
(Increase)/Decrease in Inventory	(60,658)	(89,409)
(Increase)/Decrease in Prepaid Items	(7,253)	514
Increase/(Decrease) in Accounts Payable	73,038	(126,207)
Increase/(Decrease) in Accrued Salary and Related Benefits	(13,163)	(37,318)
Increase/(Decrease) in Accrued Compensated Absences	(19,879)	23,238
Increase/(Decrease) in Other Liabilities	591	(3,548)
Increase/(Decrease) in Unearned Revenue	<u>35,859</u>	<u>(8,070)</u>
Total Adjustments	<u>1,813,559</u>	<u>2,184,240</u>
Net Cash Provided by Operating Activities	<u>\$ 5,753,138</u>	<u>\$ 5,648,919</u>
Noncash Investing, Capital and Financing Activities		
Purchase of Capital Assets on Account	\$ 755,501	\$ 57,950
Debt Issuance Costs on Account		81,122
Original Issue Premium	109,663	94,773
Gain on Refunding	60,415	55,695
Loss on Refunding	144,840	130,827
Issuance of Long-Term Debt - NJEIT Loan		3,335,000
Original Issue Premium - NJEIT Loan		166,374

NOTES TO BASIC FINANCIAL STATEMENTS

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Northwest Bergen County Utilities Authority, successor agency to the Northwest Bergen County Sewer Authority, a public body corporate and politic of the State of New Jersey, was created pursuant to the laws of the State of New Jersey, Chapter 123, P.L. 1946 (as amended and supplemented by N.J.S.A. 40:14B-1) by virtue of a resolution of the Board of Chosen Freeholders of the County of Bergen (the "County") adopted July 23, 1952. The Authority commenced operations in 1969 by providing wastewater collection and treatment services to six municipalities. Currently, the Authority provides wastewater collection and treatment services to ten municipalities.

The Authority operates under the provisions of the Municipal and County Utilities Authorities Law (the "Act") and has broad powers under the Act including, among others, the following: to retain, operate and administer its property; to provide for bonds and to secure their payment and rights of holders thereof; to charge and collect service charges for the use of its facilities and to revise such service charges to ensure that the revenues of the Authority will at all times be adequate to pay all operating and maintenance expenses, including reserves, insurance, extensions and replacements, and to pay the principal of and the interest on any bonds or loans, and to maintain such reserves or sinking funds therefore as may be required by the terms of any contract of the Authority; and to make and enforce rules and regulations for the management of its business and affairs.

The Authority is governed by a Board of Commissioners (the "Board") consisting of nine members, each of whom is appointed by the Bergen County Executive with the advice and consent of the Board of Chosen Freeholders. The Act provides that alternate Commissioners may be appointed. In addition, the County Executive has veto power over the actions of the Board of Commissioners. An Executive Director is appointed by the Board and functions as Chief Executive Officer responsible for the daily operations of the Authority. The Authority would be includable as a component unit of the County of Bergen.

GASB has issued Statement No. 39 which requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's board, and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority has no component units.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Authority are organized into one fund with self-balancing accounting records that comprise its assets, liabilities, fund equity, revenues and expenses. The fund type and fund category is as follows:

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary Fund Types

Enterprise Funds - The Enterprise Fund is used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its users on a continuing basis be financed or recovered primarily through user charges. The Authority maintains an enterprise fund to account for its Wastewater System Operations.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the enterprise fund operations are included on the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The Authority's financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond or note covenant requirements (more fully defined in Note 3).

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow FASB guidance issued subsequent to December 1, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Net Assets

1. *Deposits and Investments*

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit as well as short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at market value and are limited by the 1972 General Bond Resolution and 1984 Trust Indenture as amended and supplemented thereto.

2. *Inventory*

The Authority utilizes the consumption method of accounting for inventories whereas they report the inventories they purchase as an asset and defer the recognition of an expenditure until the period in which the inventories are actually consumed.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

3. *Prepaid Items*

Certain payments to vendors affect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

4. *Accounts Receivable*

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

5. *Restricted Assets*

Certain assets are classified as restricted on the statement of net assets because they are maintained in separate bank accounts and their use is limited by the 1972 General Bond Resolution and the 1984 Trust Indenture and supplements.

6. *Capital Assets*

All capital assets acquired or constructed by the Authority are reported as expenses in the account that finances the acquisition of the assets and are capitalized in the Operating Accounts.

Construction costs are charged to work in progress until such time as they are completed and certified by the Authority's consulting engineers, at which time they are transferred to their respective asset category and are then depreciated over their useful lives. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Authority during 2011 and 2010 was \$796,606 and \$865,734, respectively. Of these amounts \$99,760 and \$-0- were included as part of the cost of capital assets under construction for those years.

All capital assets are valued at historical cost and depreciated on the straight-line method based on their asset class and estimated useful lives as follows:

<u>Class</u>	<u>Life</u>
Treatment Plant	40 Years
Collection System	40 Years
Pumping Stations	40 Years
Machinery and Equipment	5-15 Years
Vehicles	5 Years

7. *Deferred Debits*

Debt Issuance Costs

In connection with the Authority's issuance of debt, the Authority incurred certain professional and printing costs. These expenses are deferred and amortized over the respective lives of the debt based on the effective interest method.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

8. *Compensated Absences*

Sick leave benefits and salary related payments are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Authority will compensate the employee for the benefits.

9. *Net Assets*

Restricted net assets are limited to outside third-party restrictions either by law or by other organizations or persons external to the Authority. Unrestricted net assets represent the net assets neither restricted nor invested in capital assets, net of related debt.

10. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

11. *Reclassifications*

Certain reclassifications have been made to the December 31, 2010 balances to conform to the December 31, 2011 presentation.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary Accounting*

The Authority annually prepares an operating budget. The budget is prepared in accordance with the Budget Manual for Local Public Authorities as promulgated by the Division of Local Government Services, which differs in certain respects from accounting principles generally accepted in the United States of America. The budgets serve as a plan for expenses and the proposed means for financing them. Budgetary control is exercised within the respective system. Unexpended appropriations lapse at year-end.

The annual budgets are approved at least sixty days prior to the beginning of the fiscal year. The budgets must be approved by the Board and submitted to the Division of Local Government Services, Bureau of Authority regulation for approval prior to adoption. Budget adoptions and amendments are recorded in the Authority's minutes.

Six Year Capital budgets are also prepared for each system. Included within the budgets are individual projects along with their estimated cost, completion date and source of funding.

The encumbrance method of accounting is utilized by the Authority for budgetary purposes. Under this method purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve a portion of the applicable budget appropriation.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

1. Budgetary Accounting (Continued)

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either cancelled or are included as re-appropriations of fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and re-appropriations.

2. Revenues

After the operating budgets are adopted, a wastewater collection and treatment service charge is approved by the Board. The service charge is calculated based on a formula. The formula is based on 60% of the adjusted meter flow, 20% of the equivalent dwelling units and 20% of water usage for a six month period covering the winter quarters. The service charge is billed quarterly to the participating municipalities. Revenue is recognized in the year that the user is billed.

NOTE 3 CREATION OF FUNDS

Under the Bond Resolution dated December 19, 1972 and the Trust Indenture dated September 1, 1984, the following funds are required to be created and held by the Authority's Trustee:

- A) Revenue Fund (Restricted)
- B) Operating Fund (Restricted)
- C) Bond Service Fund (Restricted)
- D) Bond Reserve Fund (Restricted)
- E) Renewal and Replacement Fund (Restricted)
- F) General Fund (Unrestricted)
- G) Construction Fund (Restricted)

Each of the above funds represents separate accounts held by a trustee. In addition to the funds listed above, the Authority maintains an Operating Account and General Improvement Account, which is held by the Authority.

The funds are described as follows:

Revenue Fund - To account for all revenues received by the Authority. All revenues deposited into the Revenue Fund are transferred by the Trustee on the transfer dates as defined by the Bond Resolution to the following funds described below.

Operating Fund - To account for the payment of all operating costs of the Authority.

Bond Service Fund - To account for the accumulation of resources for the payment of principal and interest due during the current fiscal year on outstanding bonds.

Bond (Loan) Reserve Fund - To account for funds held in accordance with the Bond Resolution to meet the Bond Reserve requirement, an amount which is equal to the maximum annual debt service on outstanding bonds. Also, New Jersey Wastewater Trust required an amount which is equal to the maximum annual debt service on outstanding loans.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 3 CREATION OF FUNDS (Continued)

Renewal and Replacement Fund – To account for the accumulation of resources to meet the renewal and replacement reserve requirement, as certified by the Authority’s consulting engineers, in accordance with the Bond Resolution. The Trustee can withdraw from this fund, upon a certification of the consulting engineers, for the use of reasonable and necessary expenses of the Authority with respect to making of improvements, constructions, reconstructions, replacements, modifications, renewals, major repairs or maintenance or other items not recurring annually or at shorter intervals with respect to the system or any portion thereof. If on any payment date there are insufficient monies in the bond service account and the bond reserve account to pay interest or a principal installment on any bonds when due and the Authority has exhausted the General Account, the Authority has just cause to use monies from the Renewal and Replacement Fund sufficient to pay the interest and/or principal payments when due.

General Fund – To account for the accumulation of resources resulting from excess monies, which are and shall be free and clear of any lien or pledge created by the Bond Resolution and Trust Indenture.

Construction Fund - To account for all financial resources received by the Authority for the payment of costs related to the construction, acquisition or restoration of the systems. All moneys in the Construction Fund are hereby pledged pending their application to other purposes or disbursement or transfer to other funds, to secure the payment of the principal or redemption price of and interest on bonds.

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits - The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corp. (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Authority is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to Pledge Plus collateral equal to 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2011 and 2010, the book value of the Authority's deposits were \$4,056,905 and \$488,381, respectively, and bank balances of the Authority's cash and deposits amounted to \$4,515,482 and \$596,306, respectively. The Authority’s deposits which are displayed on the balance sheet as “cash and cash equivalents” are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Insured		
Restricted	\$ 1,339,319	\$ 54,960
Unrestricted	<u>3,176,163</u>	<u>541,346</u>
	<u>\$ 4,515,482</u>	<u>\$ 596,306</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Authority does have a formal policy for custodial credit risk. As of December 31, 2011 and 2010, none of the Authority’s bank balances were exposed to custodial credit risk.

Investments – The Authority is required by its Bond Resolutions and Trust Indenture to maintain each of its investments in the Fund (account) in which the investment is made. In all accounts, except the operating account, the securities and the underlying collateral are held by the Bond Trustees and are within their care, custody and control. The type, quality and length of time of investment are regulated by the Bond Resolution and Trust Indenture (see Note 3).

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Under the Authority's Bond Resolution and Trust Indenture, the following investments are permitted:

- (a) Any direct and general obligation of, or any obligation fully and unconditionally guaranteed by, the United States of America;
- (b) Any bond, debenture, note or other evidence of indebtedness issued by any of the following Federal agencies: Government National Mortgage Association, Federal Home Loan Bank, Tennessee Valley Authority, Farmers Home Administration, Export-Import Bank, Federal Financing Bank and Student Loan Marketing Association;
- (c) Any other bond, debenture, note or other evidence of indebtedness issued by the Federal National Mortgage Association to the extent such obligation is guaranteed by the Government National Mortgage Association;
- (d) Any Public Housing Bond issued by any Public Housing Authority and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contribution Contract or Contracts with the United States of America; or any Project Note issued by any Public Housing Authority or Local Public Agency, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- (e) Direct and general obligations of (i) the State of New Jersey, or (ii) of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
- (f) Interest-bearing time deposits or negotiable certificates of deposit issued by any bank, trust company, or savings and loan institution organized under the laws of the United States, any state of the United States of America, or any national banking association (including the Trustee), provided that such certificates of deposit shall be (1) continuously and fully insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation, or (2) at any one time do not exceed, in the aggregate, five per centum (5%) of the total capital stock, surplus and undivided earnings of any such bank, trust company, national banking association, or savings and loan institution or (3) continuously and fully secured by such securities as are described above in clauses (a) through (d) which are legal for investment under the laws of the State of New Jersey for funds of the Authority, and which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee Bonds shall be entitled to rely on each such undertaking; and
- (g) Any repurchase with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or (ii) with a Government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which repurchase agreement is secured by any one or more of the securities described in clauses (a) through (c) above.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial Credit Risk – Investments – For an investment, this is the risk, that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Authority does not have a policy for custodial risk. As of December 31, 2011 and 2010, none of the Authority’s investments were exposed to custodial credit risk.

As of December 31, 2011 and 2010, the Authority had the following investments:

	<u>Market Value</u>
<u>2011</u>	
Certificates of Deposits	\$ 8,846,205
U.S. Treasury Securities (SLUGS)	1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>2,040,473</u>
Total Investments	<u>\$ 12,173,058</u>
Cash Equivalents	<u>\$ 8,846,205</u>
	<u>Market Value</u>
<u>2010</u>	
Certificates of Deposits	\$ 10,917,388
U.S. Treasury Securities (SLUGS)	1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>3,311,270</u>
Total Investments	<u>\$ 15,515,038</u>
Cash Equivalents	<u>\$ 10,917,388</u>

Interest Rate Risk – The Authority does have a formal investment policy that limits investment maturities as a means of managing it’s exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments as noted above (N.J.S.A. 40A:5-15.1). The Authority does not have an investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Authority places no limit in the amount the Authority may invest in any one issuer.

The fair value of the above-listed investments were based on quoted market prices.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 5 RESTRICTED ASSETS

Bond covenants of the Authority require portions of the debt proceeds as well as other resources to be set-aside for various purposes. These amounts are reported as restricted assets. The "Revenue Fund" account reserves all revenues received for future distribution to the various accounts of the Authority in accordance with the Bond Resolution. The "Construction Fund" account segregates cash and investments that are restricted for use in construction. Cash and investments restricted for debt service payment on bonds are segregated in the "Bond Service Fund" account. Cash and investments reserved to meet future debt service contingencies are segregated in "Bond Reserve Fund" accounts. Cash and investments reserved for major repairs, renewals, replacements and non-routine maintenance items are segregated in "Renewal and Replacement Fund" accounts.

NOTE 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2011 and 2010:

	Balance, January 1, <u>2011</u>	Increases/ (Decrease)	Adjustments	Balance December 31, <u>2011</u>
<u>2011</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>2,213,065</u>	<u>\$ 3,978,894</u>	<u>\$ (1,013,881)</u>	<u>5,178,078</u>
Total Capital Assets, Not Being Depreciated	<u>3,563,591</u>	<u>3,978,894</u>	<u>(1,013,881)</u>	<u>6,528,604</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	76,503,564		1,013,881	77,517,445
Property and Equipment	<u>14,256,344</u>	<u>-</u>	<u>-</u>	<u>14,256,344</u>
Total Capital Assets Being Depreciated	<u>90,759,908</u>	<u>-</u>	<u>1,013,881</u>	<u>91,773,789</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(40,368,774)	(1,513,442)		(41,882,216)
Property and Equipment	<u>(11,885,169)</u>	<u>(291,582)</u>	<u>-</u>	<u>(12,176,751)</u>
Total Accumulated Depreciation	<u>(52,253,943)</u>	<u>(1,805,024)</u>	<u>-</u>	<u>(54,058,967)</u>
Total Capital Assets, Being Depreciated, Net	<u>38,505,965</u>	<u>(1,805,024)</u>	<u>1,013,881</u>	<u>37,714,822</u>
Capital Assets, Net	<u>\$ 42,069,556</u>	<u>\$ 2,173,870</u>	<u>\$ -</u>	<u>\$ 44,243,426</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 6 CAPITAL ASSETS (Continued)

	Balance, January 1, <u>2010</u>	Increases/ (Decrease)	Adjustments	Balance December 31, <u>2010</u>
<u>2010</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>2,116,039</u>	\$ 1,447,366	\$ (1,350,340)	<u>2,213,065</u>
Total Capital Assets, Not Being Depreciated	<u>3,466,565</u>	<u>1,447,366</u>	<u>(1,350,340)</u>	<u>3,563,591</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	75,153,224		1,350,340	76,503,564
Property and Equipment	<u>14,256,344</u>	<u>-</u>	<u>-</u>	<u>14,256,344</u>
Total Capital Assets Being Depreciated	<u>89,409,568</u>	<u>-</u>	<u>1,350,340</u>	<u>90,759,908</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(38,889,090)	(1,479,684)		(40,368,774)
Property and Equipment	<u>(11,590,350)</u>	<u>(294,819)</u>	<u>-</u>	<u>(11,885,169)</u>
Total Accumulated Depreciation	<u>(50,479,440)</u>	<u>(1,774,503)</u>	<u>-</u>	<u>(52,253,943)</u>
Total Capital Assets, Being Depreciated, Net	<u>38,930,128</u>	<u>(1,774,503)</u>	<u>1,350,340</u>	<u>38,505,965</u>
Capital Assets, Net	<u>\$ 42,396,693</u>	<u>\$ (327,137)</u>	<u>\$ -</u>	<u>\$ 42,069,556</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 7 LONG-TERM DEBT

Revenue Bonds – The Authority issues Revenue Bonds to (i) permanently finance capital acquisitions and improvements; (ii) fund bond reserve requirements as more fully described in the Authority’s bond resolution; and (iii) provide for the payment of the costs of issuance related to such bonds.

The 2004 Utility System Revenue Refunding Bonds (“2004 Bonds”) payable from and secured by a pledge of revenues of the Authority derived principally from payments paid by various municipalities pursuant to service contracts and subject to the Authority’s right to pay operating expenses and to pay a rebate to the United States Government. Payment of the principal and interest on the 2004 Bonds are guaranteed by the Municipal Bond Investors Assurance Corporation (MBIA) should the Authority default in the payment thereof.

As of December 31, 2011, the principal amount of the 2004 Bonds outstanding of \$5,915,000 have been increased by \$79,105 and decreased by \$166,493. These amounts represent the unamortized original issue premium on the 2004 refunding bonds and the unamortized deferred loss on defeasement on the 2004 refunding bonds and are being reported in accordance with GASB No. 23.

As of December 31, 2010, the principal amount of the 2004 Bonds outstanding of \$8,835,000 have been increased by \$147,923 and decreased by \$311,333. These amounts represent the unamortized original issue premium on the 2004 refunding bonds and the unamortized deferred loss on defeasement on the 2004 refunding bonds and are being reported in accordance with GASB No. 23.

The 2008 Utility System Revenue Bonds (“2008 Bonds”) were issued for the purposes of (i) constructing and equipping the Solar Energy Project and (ii) paying a portion of the costs of the issuance related to the 2008 Bonds.

The 2009 BCIA Loan Revenue Bonds (“2009 Bonds”) are being issued to provide funds to make a loan to the Northwest Bergen County Utilities Authority. The Series 2009 bonds will be payable from and are secured by payments made on revenue bonds of the Utilities Authority, pursuant to the bond purchase agreement entered into between the Northwest Bergen County Utilities Authority and the Bergen County Improvement Authority

As of December 31, 2011, the principal amount of the 2009 Bonds outstanding of \$7,045,000 has been increased by \$242,183. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GASB No. 23.

As of December 31, 2010, the principal amount of the 2009 Bonds outstanding of \$7,095,000 has been increased by \$274,709. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GASB No. 23.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 7 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued) - Revenue Bonds outstanding as of December 31, 2011 and 2010 consist of the following:

	December 31, <u>2011</u>	December 31, <u>2010</u>
Wastewater Revenue Bonds, Refunding, Series 2004 2.00-4.75% due July 15, 2005 to 2013	\$ 5,915,000	\$ 8,835,000
Utility System Revenue Bonds, Series 2008 1.05% due December 15, 2008 to 2021	1,597,745	1,757,519
BCIA Loan Revenue Bonds, Series 2009 2.00-5.00% due July 15, 2011 to 2024	<u>7,045,000</u>	<u>7,095,000</u>
Total	<u>\$ 14,557,745</u>	<u>\$ 17,687,519</u>

Intergovernmental Loans Payable – The Authority has entered into loan agreements with the State of New Jersey Environmental Infrastructure Trust to provide funds for the expansion of the Authority’s Phase II wastewater treatment plant and the replacement fluidized bed sludge incinerator and rehabilitation of the Stage II Phase III interceptor. During 2010, the Authority entered into a loan agreement with the State of New Jersey to provide funds for the incinerator upgrade. The Authority has pledged income from operations to pay debt service.

Loans Payable outstanding at December 31, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Wastewater System - 1993 Refunded in 2003 4.50% to 4.80%	\$ 544,329	\$ 1,066,208
Fund Loan Payable - Wastewater System - 1993 Refunded in 2003 Interest Free	384,316	769,525
Trust Loan Payable - Wastewater System - 1997, Refunded in 2006 4.50% to 5.00%	2,144,705	2,474,021
Fund Loan Payable - Wastewater System - 1997, Refunded in 2006 Interest Free	664,729	756,137
Trust Loan Payable- Wastewater System - 2010 5.00%	1,655,000	1,655,000
Fund Loan Payable- Wastewater System- 2010 Interest Free	<u>1,680,000</u>	<u>1,680,000</u>
Total	<u>\$ 7,073,079</u>	<u>\$ 8,400,891</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 7 LONG-TERM DEBT (Continued)

The Authority's long-term debt is reported net of any unamortized premium or discount and net of unamortized loss on refunding. Long-term debt activity for the years ended December 31, 2011 and 2010 was as follows:

<u>2011</u>	Balance, January 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 30, <u>2011</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 17,687,519		\$ 3,129,774	\$ 14,557,745	\$ 3,284,774
Less: Unamortized Loss on Refunding	(311,333)		(144,840)	(166,493)	
Plus: Unamortized Original Issue Premium	<u>422,632</u>	<u>-</u>	<u>101,344</u>	<u>321,288</u>	<u>-</u>
Total Bonds Payable	<u>17,798,818</u>	<u>-</u>	<u>3,086,278</u>	<u>14,712,540</u>	<u>3,284,774</u>
New Jersey Environmental Infrastructure Loan	8,400,891		1,327,812	7,073,079	1,499,801
Plus: Unamortized Original Issue Premium	166,374		8,319	158,055	
Unamortized Gain on Refunding (1)	<u>269,648</u>	<u>-</u>	<u>60,415</u>	<u>209,233</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>8,836,913</u>	<u>-</u>	<u>1,396,546</u>	<u>7,440,367</u>	<u>1,499,801</u>
Total Long-Term Debt - Net	26,635,731	-	4,482,824	22,152,907	4,784,575
Plus: Compensated Absences	156,634		19,879	136,755	13,676
Claims and Judgements	<u>178,699</u>	<u>\$ 70,000</u>	<u>-</u>	<u>248,699</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 26,971,064</u>	<u>\$ 70,000</u>	<u>\$ 4,502,703</u>	<u>\$ 22,538,361</u>	<u>\$ 4,798,251</u>

(1) In addition to the annual principal payment, the State of New Jersey refinanced the 1993 and 1997 wastewater loans resulting in a principal reduction for the Authority of \$209,233 as of December 31, 2011. This amount is netted against the loans payable recorded on the balance sheet.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 7 LONG-TERM DEBT (Continued)

<u>2010</u>	Balance, January 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2010</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 20,637,294		\$ 2,949,775	\$ 17,687,519	\$ 3,129,774
Less: Unamortized Loss on Refunding	(442,160)		(130,827)	(311,333)	
Plus: Unamortized Original Issue Premium	<u>517,405</u>	<u>-</u>	<u>94,773</u>	<u>422,632</u>	<u>-</u>
Total Bonds Payable	<u>20,712,539</u>	<u>-</u>	<u>2,913,721</u>	<u>17,798,818</u>	<u>3,129,774</u>
New Jersey Environmental Infrastructure Loan	6,436,231	\$ 3,335,000	1,370,340	8,400,891	1,327,812
Plus: Unamortized Original Issue Premium		166,374		166,374	
Unamortized Gain on Refunding (1)	<u>325,343</u>	<u>-</u>	<u>55,695</u>	<u>269,648</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>6,761,574</u>	<u>3,501,374</u>	<u>1,426,035</u>	<u>8,836,913</u>	<u>1,327,812</u>
Total Long-Term Debt - Net	27,474,113	3,501,374	4,339,756	26,635,731	4,457,586
Plus: Compensated Absences	133,396	23,238		156,634	15,663
Claims and Judgements	<u>485,936</u>	<u>70,000</u>	<u>377,237</u>	<u>178,699</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 28,093,445</u>	<u>\$ 3,594,612</u>	<u>\$ 4,716,993</u>	<u>\$ 26,971,064</u>	<u>\$ 4,473,249</u>

(1) In addition to the annual principal payment, the State of New Jersey refinanced the 1993 and 1997 wastewater loans resulting in a principal reduction for the Authority of \$269,648 as of December 31, 2010. This amount is netted against the loans payable recorded on the balance sheet.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 7 LONG-TERM DEBT (Continued)

The Authority's schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2011 is as follows:

Period Ending December 31,	Revenue Bonds		NJ Environmental Infrastructure Loan		Total
	Principal	Interest	Principal	Interest	
2012	\$ 3,284,774	\$ 508,952	\$ 1,499,801	\$ 224,800	\$ 5,518,327
2013	3,494,774	383,273	586,461	180,300	4,644,808
2014	664,774	258,096	602,629	148,250	1,673,749
2015	674,774	243,794	633,805	129,000	1,681,373
2016	689,774	229,241	646,079	108,250	1,673,344
2017-2021	3,703,875	856,739	1,354,304	321,000	6,235,918
2022-2026	2,045,000	201,250	935,000	195,750	3,377,000
2027-2030	-	-	815,000	62,250	877,250
	<u>\$ 14,557,745</u>	<u>\$ 2,681,345</u>	<u>\$ 7,073,079</u>	<u>\$ 1,369,600</u>	<u>\$ 25,681,769</u>

The above schedule of principal and interest is based on a calendar year – cash basis.

NOTE 8 ACCRUED COMPENSATED ABSENCES

Under the existing policies of the Authority, employees are allowed to accumulate (with certain restrictions) unused sick leave benefits over the life of their working careers and to redeem such unused leave time in cash (with certain limitations) upon retirement, termination in good standing or by extended absence immediately preceding retirement. It is estimated that the current cost of such unpaid compensation and salary related payments would approximate \$136,755 and \$156,634 at December 31, 2011 and 2010, respectively. These amounts are accrued as a liability at December 31, 2011 and 2010.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 9 AMOUNTS REQUIRED BY BOND RESOLUTION COVENANTS AND LOAN AGREEMENTS

The Authority's bond covenants and loan agreements require certain restricted funds to be on deposit. The balances required to be on deposit at December 31, 2011 and 2010 are as follows:

	<u>Bond/Loan Service Fund</u>	<u>Bond/Loan Reserve Fund</u>	<u>R & R Fund</u>	<u>Revenue Fund</u>
<u>December 31, 2011</u>				
Required Balance	\$ 2,758,714	\$ 5,353,400	\$ 250,000	\$ 2,437,426
Cash and Investments	<u>2,427,029</u>	<u>5,377,385</u>	<u>250,000</u>	<u>3,550,483</u>
Excess/(Deficit)	<u>\$ (331,685)</u>	<u>\$ 23,985</u>	<u>\$ -</u>	<u>\$ 1,113,057</u>
 <u>December 31, 2010</u>				
Required Balance	\$ 2,640,357	\$ 5,353,400	\$ 250,000	\$ 2,450,514
Cash and Investments	<u>2,543,057</u>	<u>5,377,385</u>	<u>250,000</u>	<u>3,438,465</u>
Excess/(Deficit)	<u>\$ (97,300)</u>	<u>\$ 23,985</u>	<u>\$ -</u>	<u>\$ 987,951</u>

NOTE 10 EMPLOYEE RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees which includes those Authority employees who are eligible for pension coverage.

Public Employees' Retirement System (PERS) – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement healthcare coverage.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Authority employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Other Pension Funds

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS are funded directly by each of the respective systems and are considered in the annual actuarial calculation of the required contributions for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement system.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS and PFRS operate and to the benefit provisions of those systems.

This new legislation's provisions impacting employee pension and health benefits include:

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and to attain age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.
- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years, PFRS and PERS Prosecutors Part active member rates increase from 8.5 percent to 10 percent. For Fiscal Year 2012, the member contribution rates increase in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS and PFRS, is 70.5 percent with an unfunded actuarial accrued liability of \$36.3 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 65.2 percent and \$25.6 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and PFRS is 78.5 percent and \$10.7 billion, respectively.

The funded status and funding progress of the retirement systems includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate of return for all the retirement systems; and (2) 5.45 percent for projected salary increases for all the retirement systems except PFRS.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 6.50% for PERS, 8.50% for PFRS and 5.50% for DCRP of employees' annual compensation.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2011 for PERS and PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended December 31, 2011, 2010 and 2009, the Authority was required to contribute for normal cost pension contributions, accrued liability pension contributions and non-contributory life insurance premiums the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>	<u>DCRP</u>
2011	\$ 349,900	\$ 150
2010	262,550	138
2009	224,293	150

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 11 POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating local government employees including the Authority.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and the Teacher's Pension and Annuity (TPAF) are combined and reported as Pension and Other Employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost sharing multiple-employer plan. The post-retirement benefit programs had a total of 547 state and local participating employers and contributing entities for Fiscal Year 2011.

The State of New Jersey sponsors and administers the following health benefit program covering substantially all local government employees from local participating employers.

Health Benefits Program Fund (HBPF) – Local Government (including Prescription Drug Program Fund) – Certain local employers who participate in the State Health Benefits Program provide health insurance coverage to their employees at retirement. Under provisions of P.L. 1997, c.330, the State of New Jersey provides partially funded benefits to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Also, local employees are eligible for the PDP coverage after 60 days of employment.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 11 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Significant Legislation

P.L. 2011, c.78, effective October 2011, sets new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the State had a \$59.3 billion unfunded actuarial liability for other postemployment benefits (OPEB) which is made up of \$21.1 billion for state active and retired members and \$38.2 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events in the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included 4.50 percent for investment rate of return for the OPEB.

Post-Retirement Medical Benefits Contribution

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2011, there were 93,323 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 11 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Post-Retirement Medical Benefits Contribution (Continued)

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service. The State and participating local governments contributed \$108.1 million for 8,161 eligible retired members for Fiscal Year 2011. This benefit covers the PFRS.

P.L. 1997, c. 330 provides paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and to dependents of qualified retirees. The State and participating local governments are responsible for 80 percent of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State and participating local governments contributed \$34.2 million in Fiscal Year 2011 to provide benefits under Chapter 330 to qualified retirees.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Authority's contributions to the State Health Benefits Program Fund-Local Government for post-retirement benefits for the years ended December 31, 2011, 2010 and 2009 were \$141,048, \$110,367 and \$103,076, respectively, which equaled the required contributions for each year (or were not available). In addition, the Authority's reimbursements to eligible retired employees for Medicare Part B insurance coverage for the years ended December 31, 2011, 2010 and 2009 were \$16,388, \$17,352 and \$17,345, respectively.

NOTE 12 OTHER INFORMATION

A. Contingencies

The Authority is a party defendant in certain lawsuits, none of a kind unusual for an Authority of its size and scope of operation. In the opinion of the Authority's Counsel, there are presently no claims for which the outcome can presently be predicted.

B. Risk Management

The Authority is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Authority has obtained insurance coverage to guard against these events which will provide minimum exposure to the Authority should they occur.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 FEDERAL ARBITRAGE REGULATIONS

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2009, the Authority had performed the calculation to determine if there are any estimated arbitrage earnings due to the IRS. Based upon the calculation performed for the computation period January 13, 2004 through December 31, 2008, there is a liability required to be rebated to the IRS in the amount of \$377,237, which includes \$20,311 of accrued interest liability. The \$377,237 due to the IRS was paid in full by the Authority in May, 2010. As of December 31, 2011 and 2010, the estimated arbitrage earnings due to the IRS were \$248,699 and \$178,699, respectively. The estimated arbitrage earnings due to the IRS were recorded as claims and judgements under the non-current liability section on the balance sheet.

NOTE 14 SUBSEQUENT EVENTS

On February 8, 2012 the Authority received an interim financing loan through the New Jersey Environmental Infrastructure Trust in the amount of \$1,979,290. This is an interest free loan anticipated to mature on May 3, 2012. The proceeds are to be used to fund the Franklin Lakes sanitary sewer project costs.

The Authority did receive a veto message from the Bergen County Executive regarding the adoption of its 2012 budget, but only as it applied to the annual stipend of \$5,000 paid to each Commissioner and the provision of health benefits to those Commissioners who are covered by the Authority's health insurance plan. On March 19, 2012, the Director of the Division of Local Government Services of the New Jersey Department of Community Affairs advised the Authority that he was upholding the County Executive's veto, and the Authority has authorized General Counsel to appeal that decision to the Local Finance Board.

SUPPLEMENTARY SCHEDULES

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2011

SCHEDULE 1

	2011 <u>Budget</u>	2011 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
OPERATING REVENUES			
Service Charges	\$ 14,010,240	\$ 13,916,922	\$ (93,318)
Sewer Connection Fees		119,346	119,346
Outside Sludge	167,000	433,579	266,579
Discharge Fees		1,500	1,500
Industrial Pretreatment Program	60,000	75,479	15,479
Collection System	48,000	71,859	23,859
Solar Renewable Energy Certificates (SREC)	230,000	147,595	(82,405)
Miscellaneous	50,000	42,891	(7,109)
Total Operating Revenues	<u>14,565,240</u>	<u>14,809,171</u>	<u>243,931</u>
NON-OPERATING REVENUES			
Interest on Investments	250,000	241,487	(8,513)
Total Non-Operating Revenues	<u>250,000</u>	<u>241,487</u>	<u>(8,513)</u>
Total Revenues	<u>14,815,240</u>	<u>15,050,658</u>	<u>235,418</u>
OPERATING APPROPRIATIONS			
ADMINISTRATION			
Salaries & Wages	501,167	575,979	(74,812)
Fringe Benefits	254,000	291,107	(37,107)
Other Expenses			
Professionals	802,000	494,300	307,700
Communication	32,300	27,082	5,218
Executive	9,500	7,382	2,118
Management	216,000	168,410	47,590
Total Administration	<u>1,814,967</u>	<u>1,564,260</u>	<u>250,707</u>
COST OF PROVIDING SERVICES			
Salaries & Wages	3,251,561	3,167,559	84,002
Fringe Benefits	1,647,326	1,600,425	46,901
Other Expenses			
Utilities	1,388,200	1,305,965	82,235
Insurance	150,000	145,384	4,616
Vehicles	55,000	61,352	(6,352)
Collection System	322,000	196,838	125,162
Sewage Treatment & Laboratory	264,000	386,975	(122,975)
Solids Disposal	769,000	573,077	195,923
Buildings & Grounds/Road	140,000	123,391	16,609
Total Cost of Providing Services	<u>7,987,087</u>	<u>7,560,966</u>	<u>426,121</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2011

SCHEDULE 1

	2011		Variance
	<u>Budget</u>	2011	Favorable/ (Unfavorable)
		<u>Actual</u>	(Unfavorable)
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,457,586	\$ 4,457,586	
Interest Payment on Debt	715,600	715,600	-
	<u>5,173,186</u>	<u>5,173,186</u>	<u>-</u>
Total Non-Operating Appropriations			
	<u>5,173,186</u>	<u>5,173,186</u>	<u>-</u>
Total Appropriations	<u>14,975,240</u>	<u>14,298,412</u>	<u>\$ 676,828</u>
Total Budget Income/(Loss)	<u>\$ (160,000)</u>	752,246	<u>\$ 912,246</u>

RECONCILIATION TO COMPILATION (GAAP)

Increases to Budget Income:

Principal Paid on Bonds/Loans Payable	4,457,586
Accrued Interest on Bonds/Loans Payable	71,327
Interest Expense - Original Issue Premium	109,663
Interest Expense - Gain on Refunding	60,415
Inventory Adjustment	60,658

Decreases to Budget Income

Amortization of Debt Issuance Costs	(70,495)
Interest Paid on Bonds/Loans Payable	(77,811)
Interest Expense - Loss on Refunding	(144,840)
Depreciation	<u>(1,805,024)</u>

Change in Net Assets - GAAP

\$ 3,413,725

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE 2

	2010 Modified <u>Budget</u>	2010 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
OPERATING REVENUES			
Service Charges	\$ 13,738,687	\$ 13,738,687	
Sewer Connection Fees		56,084	\$ 56,084
Outside Sludge	120,000	211,287	91,287
Discharge Fees		1,670	1,670
Industrial Pretreatment Program	68,000	65,181	(2,819)
Collection System	58,000	85,803	27,803
Solar Renewable Energy Certificates (SREC)	200,000	293,975	93,975
Miscellaneous	70,000	43,905	(26,095)
Total Operating Revenues	<u>14,254,687</u>	<u>14,496,592</u>	<u>241,905</u>
NON-OPERATING REVENUES			
Interest on Investments	320,000	325,873	5,873
Total Non-Operating Revenues	<u>320,000</u>	<u>325,873</u>	<u>5,873</u>
Total Revenues	<u>14,574,687</u>	<u>14,822,465</u>	<u>247,778</u>
OPERATING APPROPRIATIONS			
ADMINISTRATION			
Salaries & Wages	487,750	505,947	(18,197)
Fringe Benefits	234,000	230,443	3,557
Other Expenses			
Professionals	710,000	794,576	(84,576)
Communication	34,800	22,208	12,592
Executive	10,000	6,761	3,239
Management	200,500	153,821	46,679
Total Administration	<u>1,677,050</u>	<u>1,713,756</u>	<u>(36,706)</u>
COST OF PROVIDING SERVICES			
Salaries & Wages	3,439,986	3,234,003	205,983
Fringe Benefits	1,513,344	1,472,756	40,588
Other Expenses			
Utilities	1,259,200	1,300,925	(41,725)
Insurance	175,000	132,797	42,203
Vehicles	56,500	44,588	11,912
Collection System	300,146	195,781	104,365
Sewage Treatment & Laboratory	245,000	263,335	(18,335)
Solids Disposal	885,000	838,392	46,608
Buildings & Grounds/Road	140,000	150,486	(10,486)
Total Cost of Providing Services	<u>8,014,176</u>	<u>7,633,063</u>	<u>381,113</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2010

SCHEDULE 2

	2010 Modified Budget	2010 Actual	Variance Favorable/ (Unfavorable)
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,320,115	\$ 4,320,115	
Interest Payment on Debt	878,346	878,346	-
Total Non-Operating Appropriations	<u>5,198,461</u>	<u>5,198,461</u>	-
Total Appropriations	<u>14,889,687</u>	<u>14,545,280</u>	\$ 344,407
Total Budget Income/(Loss)	<u>\$ (315,000)</u>	277,185	<u>\$ 592,185</u>

RECONCILIATION TO COMPILATION (GAAP)

Increases to Budget Income:	
Principal Paid on Bonds/Loans Payable	4,320,115
Accrued Interest on Bonds/Loans Payable	77,302
Interest Income on 2009 Construction Project	38,825
Interest Expense - Original Issue Premium	94,773
Interest Expense - Gain on Refunding	55,695
Inventory Adjustment	89,409
Decreases to Budget Income	
Amortization of Debt Issuance Costs	(73,242)
Interest Paid on Bonds/Loans Payable	(84,331)
Interest Expense - Loss on Refunding	(130,827)
Depreciation	<u>(1,774,503)</u>
Change in Net Assets - GAAP	<u>\$ 2,890,401</u>

LERCH, VINCI & HIGGINS, LLP

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EDWARD N. KERE, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Commissioners of the Authority
Northwest Bergen County Utilities Authority
Waldwick, New Jersey

We have audited the financial statements of the Northwest Bergen County Utilities Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated April 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

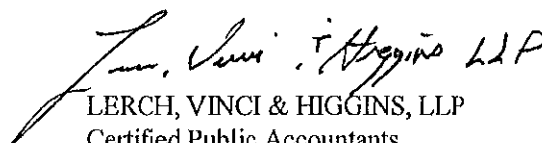
Compliance and Other Matters

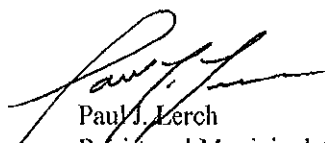
As part of obtaining reasonable assurance about whether the Northwest Bergen County Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain other matters that we have reported to management of the Northwest Bergen County Utilities Authority in the Section of our report of audit entitled "General Comments and Recommendations".

The Northwest Bergen County Utilities Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Northwest Bergen County Utilities Authority Commissioners, others within the Authority, New Jersey State Department of Community Affairs and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants


Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 16, 2012

LERCH, VINCI & HIGGINS, LLP

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

Independent Auditor's Report

Honorable Chairman and Commissioners of the Authority
Northwest Bergen County Utilities Authority
Waldwick, New Jersey

Compliance

We have audited the Northwest Bergen County Utilities Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the Northwest Bergen County Utilities Authority's major state programs for the year ended December 31, 2011. The Northwest Bergen County Utilities Authority's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Northwest Bergen County Utilities Authority's management. Our responsibility is to express an opinion on the Northwest Bergen County Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and circulars require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Northwest Bergen County Utilities Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Northwest Bergen County Utilities Authority's compliance with those requirements.

In our opinion, the Northwest Bergen County Utilities Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended December 31, 2011.

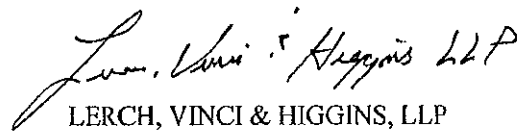
Internal Control Over Compliance

Management of the Northwest Bergen County Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Northwest Bergen County Utilities Authority's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Northwest Bergen County Utilities Authority's internal control over compliance.

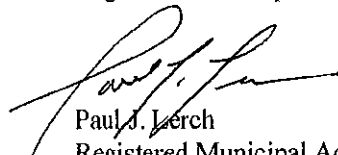
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Commissioners, others within the Authority, New Jersey Department of Community Affairs and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants



Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 16, 2012

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2011

<u>State Grant Program</u>	<u>Grant Number</u>	<u>Grant Year</u>	<u>Grant Award</u>	<u>2011 Grant Receipts</u>	<u>Balance, December 31, 2010</u>	<u>Revenue</u>	<u>Expended</u>	<u>Balance, December 31, 2011</u>	<u>Memo Cumulative Expenditures</u>
Department of Environmental Protection									
New Jersey Environmental Infrastructure Trust - Fund Loan	4860-150-093020-60	2010	\$ 1,680,000	1,680,000	\$ 1,680,000		\$ 1,680,000	\$ 161,995	\$ 1,680,000
New Jersey Environmental Infrastructure Trust - Trust Loan	4860-150-093020-60	2010	1,655,000	1,005,288	1,655,000	-	1,493,005	\$ 161,995	1,493,005
					<u>\$ 3,335,000</u>	<u>-</u>	<u>\$ 3,173,005</u>	<u>\$ 161,995</u>	<u>\$ 3,173,005</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 GENERAL

The accompanying schedule presents the activity of all state financial assistance programs of the Northwest Bergen County Utilities Authority. The Authority is defined in Note 1 to the Authority's financial statements. All state financial assistance passed through other government agencies is included on the schedule of expenditures of state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule is presented using grant basis of accounting for proprietary funds as presented by accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. This basis of accounting realizes grant awards as revenue and capital expenditures as expense. Under the accrual basis for proprietary funds, loan proceeds are not considered revenue and capital expenditures are capitalized and depreciated over the life of the asset.

NOTE 3 RELATIONSHIP TO STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not necessarily agree with the amounts reported in the related state financial reports due to differences between the Authority's budgetary basis of accounting and accounting principles generally accepted in the United States of America (GAAP).

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part I – Summary of Auditor’s Results

Financial Statement Section

- A) Type of auditors' report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? yes X no
- 2) Significant deficiency(ies) identified that were not considered to be material weaknesses? X yes none reported
- C) Noncompliance material to basic financial statements noted? yes X no

Federal Awards Section - NOT APPLICABLE

Internal Control over major programs:

- 1) Material weakness(es) identified? yes no
- 2) Significant deficiencies identified that were not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs _____

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B programs: _____

Auditee qualified as low-risk auditee? yes no

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Part I – Summary of Auditor's Results

State Awards

Dollar threshold used to distinguish type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

Type of auditors' report issued on compliance for major programs: Unqualified

Internal Control over major programs:

1) Material weakness (es) identified? _____ yes X no

2) Significant deficiency(ies) identified that were not considered to be material weaknesses? _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular Letter 04-04? _____ yes X no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
4860-150-093020-60	New Jersey Environmental Infrastructure Trust Loan

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

Finding 2011-1:

Our review of the inventory system revealed that the Authority does not perform a physical count of inventory on hand and also a verification of inventory values.

Criteria or specific requirement:

Internal Control Procedures

Condition:

A verification of inventory quantities and values has not been performed to support the Authority's computerized inventory system.

Effect:

Inventory values may be overstated or understated, which can be potentially material to the financial statements.

Cause:

The Authority has not assigned personnel to perform a physical inventory count and verify inventory values.

Recommendation:

The Authority perform a physical count and a verification of values of the inventory on hand.

Management's Response:

The Authority will perform a physical count and verification of values of the inventory on hand.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

CURRENT YEAR FEDERAL AWARDS

Not Applicable

CURRENT YEAR STATE AWARDS

There are none.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133 (Section .315(a)(b)) and New Jersey OMB's Circular 04-04.

STATUS OF PRIOR YEAR FINDINGS

See current year finding.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2011

COMMISSIONERS

William Dator
Michael N. Kasparian
Brian Chewcaskie
Peter Dachnowicz
Nicholas Rotonda
Frank Kelaher
Jason Shafron
Marion Plumley

Chairman
Vice Chairman
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

Todd Sherer
Treasurer

Madeline Thumudo
Secretary

Howard Hurwitz
Executive Director

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GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS

Our audit of the financial disclosure statements revealed that one Commissioner did not file the annual financial disclosure statement. It is recommended that all Commissioners file the annual financial disclosure statement.

Management's Response – Commissioners will comply with the requirement to file a timely financial disclosure statement.

APPRECIATION

We desire to express our appreciation to the Executive Director and other Authority staff who assisted us during the course of our audit.

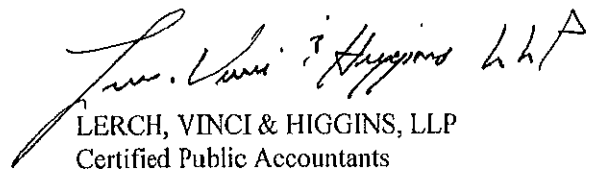
RECOMMENDATIONS

It is recommended that:

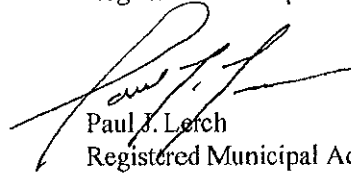
1. The Authority perform a physical count and a verification of values of the inventory on hand.
2. All Commissioners file the annual financial disclosure statement.

* * * * *

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, please do not hesitate to call us.



LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants



Paul J. Lerch
Registered Municipal Accountant
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